

June 11, 1998

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

MEMORANDUM TO THE COMMITTEE ON WAYS AND MEANS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES ON PROPOSED TARIFF LEGISLATION¹

Bill no., sponsor, and sponsor's state: H.R. 3374 (105th Congress), Representative Crapo (ID).

Companion bill: None.

Title as introduced: To amend the Harmonized Tariff Schedule of the United States to provide for temporary duty-free treatment for semiconductor plating lines.

Summary of bill:²

The bill would suspend through December 31, 2001 the general rate of duty on plating lines used in making semiconductors and integrated circuits. Chapter 99 of the Harmonized Tariff Schedule of the United States (HTS) would be amended to establish a new heading for the subject goods.

Effective date: The 15th day after enactment.

Retroactive effect: None.

Statement of purpose:

Representative Crapo made no statement about the bill in the *Congressional Record*. Representatives of a major U.S. manufacturer of semiconductors maintain that suspending the tariff on semiconductor plating lines would significantly enhance the competitiveness of the U.S. semiconductor industry and would encourage U.S. firms to establish semiconductor assembly operations in the United States, rather than overseas. According to industry sources, suspension of the tariff on semiconductor plating lines is not expected to generate opposition, because most U.S. producers of semiconductors depend upon foreign sources for plating line assembly processes.

¹Industry analyst: James M. Brandon (205-3433); attorney: Jan Summers (205-2605).

²See appendix A for definitions of tariff and trade agreement terms.

Product description and uses:

Semiconductor

plating lines: Semiconductor plating lines are highly specialized pieces of semiconductor manufacturing equipment that are used in making semiconductors. Plating lines, also known as electroplating systems, are built to a producer's specifications and cannot be used for any purpose other than in semiconductor assembly. The purpose of a plating line is to put semiconductors through an automated tin/lead plating process. Tin/lead plating protects the leads of a semiconductor and enhances the customers' ability to solder the components to their specific applications.

Semiconductor plating line systems are approximately 85 feet in length, are fully automated, and utilize specific chemicals and electrical currents to pre-clean, prepare, and plate semiconductors with a layer of tin or lead. A typical system consists of a loading station, chemical etching tanks, chemical pre-dip tanks, tin/lead plating baths, a post-cleaning station, and an unloading station.

Tariff treatment:³

<u>Product</u>	<u>HTS subheading</u>	Col. 1-general <u>rate of duty</u>
Machines and apparatus for electroplating, electrolysis, or electrophoresis.....	8543.30.00 ⁴	2.9%

Structure of domestic industry (including competing products):

Semiconductor

plating lines: According to industry sources, semiconductor plating lines are not produced in the United States. The U.S. semiconductor industry, which is the principal user of these products, is composed of numerous large and small companies that generally conduct their plating line assembly offshore, relying on foreign subsidiaries or unrelated foreign contractors. However, a small number of domestic companies import semiconductor plating lines and perform some assembly functions in the United States. Of all the domestic semiconductor manufacturers, Micron Electronics is the only company that performs virtually all of its assembly operations in the United States and likely accounts for a substantial share of U.S. imports of semiconductor plating lines. According to Micron, it obtains all of its plating line equipment from foreign sources.

³ See appendix B for column 1-special and column 2 duty rates.

⁴ This tariff classification would seem to apply to machines or apparatus imported together or as a system; parts would fall in subheading 8543.90, and separately imported individual elements that are more specifically described elsewhere in the HTS would not fall in heading 8543. We do not have specific information on the precise form and condition of the subject goods at the time of importation, but note that they are large and complex and may not be imported as single shipments.

Private-sector views:

The Commission contacted legal representatives of a major domestic producer of semiconductors and the principal trade association for electroplating equipment manufacturers.⁵ As of the date of preparation of this report, the Commission had received no written submissions about the bill.

U.S. consumption:

Semiconductor plating machines:	<u>1995</u>	<u>1996</u>	<u>1997</u>
	-----(\$1,000)-----		
U.S. production.....	(1)	(1)	(1)
U.S. imports.....	(1)	(1)	(1)
U.S. exports.....	(1)	(1)	(1)
Apparent U.S. consumption.....	(1)	(1)	(1)

¹Not available; the subheading covers all types of machines and apparatus for electroplating or for conducting electrolysis or electrophoresis, not just those for plating semiconductors.

Principal import sources: Not available.

Principal export markets: Not available.

Effect on customs revenue:⁶

Future (1998-2001) effect: Based on equipment import data provided by a major domestic semiconductor manufacturer, duties paid on plating lines entered under subheading 8543.30.00 totaled approximately \$31,000 in 1997. It is estimated that the loss in customs revenue resulting from suspension of the tariff on semiconductor plating lines would total at least that amount annually during 1998-2001.

Retroactive effect: None.

Technical comments:

We would suggest replacing the words "Plating lines" with "Electroplating machines and apparatus" to be consistent with the permanent tariff category, and the referenced HTS subheading should appear as "8543.30.00". We note again that Customs may not classify all such goods (given their size and complexity) imported by the semiconductor assembly industry in subheading 8543.30.00, depending on the nature of the goods concerned at the time of importation; this tariff provision is a general one, covering

⁵The Commission made telephone contacts with representatives of Hale & Dorr, Micron Electronics, Inc., and the Semiconductor Equipment and Materials International Association.

⁶Actual revenue loss may be understated if a significant increase in imports occurs during the duty suspension period.

goods not previously enumerated in the chapter. Given the small volume of such equipment imported in the past, the goods may have been imported in various forms and conditions and under various HTS categories.

APPENDIX A

TARIFF AND TRADE AGREEMENT TERMS

In the **Harmonized Tariff Schedule of the United States** (HTS), chapters 1 through 97 cover all goods in trade and incorporate in the tariff nomenclature the internationally adopted Harmonized Commodity Description and Coding System through the 6-digit level of product description. Subordinate 8-digit product subdivisions, either enacted by Congress or proclaimed by the President, allow more narrowly applicable duty rates; 10-digit administrative statistical reporting numbers provide data of national interest. Chapters 98 and 99 contain special U.S. classifications and temporary rate provisions, respectively. The HTS replaced the **Tariff Schedules of the United States** (TSUS) effective January 1, 1989.

Duty rates in the **general** subcolumn of HTS column 1 are most-favored-nation (MFN) rates, many of which have been eliminated or are being reduced as concessions resulting from the Uruguay Round of Multilateral Trade Negotiations. Column 1-general duty rates apply to all countries except those enumerated in HTS general note 3(b) (Afghanistan, Cuba, Laos, North Korea, and Vietnam), which are subject to the statutory rates set forth in **column 2**. Specified goods from designated MFN-eligible countries may be eligible for reduced rates of duty or for duty-free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the **special** subcolumn of HTS rate of duty column 1 or in the general notes. If eligibility for special tariff rates is not claimed or established, goods are dutiable at column 1-general rates. The HTS does not enumerate those countries as to which a total or partial embargo has been declared.

The **Generalized System of Preferences** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 for 10 years and extended several times thereafter, applies to merchandise imported on or after January 1, 1976 and before the close of June 30, 1998. Indicated by the symbol "A", "A*", or "A+" in the special subcolumn, the GSP provides duty-free entry to eligible articles the product of and imported directly from designated beneficiary developing countries, as set forth in general note 4 to the HTS.

The **Caribbean Basin Economic Recovery Act** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67, implemented by Presidential Proclamation 5133 of November 30, 1983, and amended by the Customs and Trade Act of 1990, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984. Indicated by the symbol "E" or "E*" in the special subcolumn, the CBERA provides duty-free entry to eligible articles, and reduced-duty treatment to certain other articles, which are the product of and imported directly from designated countries, as set forth in general note 7 to the HTS.

Free rates of duty in the special subcolumn followed by the symbol "IL" are applicable to products of Israel under the **United States-Israel Free Trade Area Implementation Act** of 1985 (IFTA), as provided in general note 8 to the HTS.

Preferential nonreciprocal duty-free or reduced-duty treatment in the special subcolumn followed by the symbol "J" or "J*" in parentheses is afforded to eligible articles the product of designated beneficiary countries under the **Andean Trade Preference Act** (ATPA), enacted as title II of Public Law 102-182 and implemented by Presidential Proclamation 6455 of July 2, 1992 (effective July 22, 1992), as set forth in general note 11 to the HTS.

Preferential or free rates of duty in the special subcolumn followed by the symbol "CA" are applicable to eligible goods of Canada, and rates followed by the symbol "MX" are applicable to eligible goods of Mexico, under the **North American Free Trade Agreement**, as provided in general note 12 to the HTS and implemented effective January 1, 1994 by Presidential Proclamation 6641 of December 15, 1993. Goods must originate in the NAFTA region under rules set forth

in general note 12(t) and meet other requirements of the note and applicable regulations.

Other special tariff treatment applies to particular **products of insular possessions** (general note 3(a)(iv)), **products of the West Bank and Gaza Strip** (general note 3(a)(v)), goods covered by the **Automotive Products Trade Act** (APTA) (general note 5) and the **Agreement on Trade in Civil Aircraft** (ATCA) (general note 6), **articles imported from freely associated states** (general note 10), **pharmaceutical products** (general note 13), and **intermediate chemicals for dyes** (general note 14).

The **General Agreement on Tariffs and Trade 1994** (GATT 1994), pursuant to the Agreement Establishing the World Trade Organization, is based upon the earlier GATT 1947 (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) as the primary multilateral system of disciplines and principles governing international trade. Signatories' obligations under both the 1994 and 1947 agreements focus upon most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national treatment for imported products; the GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, dispute settlement, and other measures. The results of the Uruguay Round of multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as Schedule XX.

Pursuant to the **Agreement on Textiles and Clothing** (ATC) of the GATT 1994, member countries are phasing out restrictions on imports under the prior "Arrangement Regarding International Trade in Textiles" (known as the **Multifiber Arrangement** (MFA)). Under the MFA, which was a departure from GATT 1947 provisions, importing and exporting countries negotiated bilateral agreements limiting textile and apparel shipments, and importing countries could take unilateral action in the absence or violation of an agreement. Quantitative limits had been established on imported textiles and apparel of cotton, other vegetable fibers, wool, man-made fibers or silk blends in an effort to prevent or limit market disruption in the importing countries. The ATC establishes notification and safeguard procedures, along with other rules concerning the customs treatment of textile and apparel shipments, and calls for the eventual complete integration of this sector into the GATT 1994 over a ten-year period, or by Jan. 1, 2005.

Rev. 8/12/97

APPENDIX B

**SELECTED PORTIONS OF THE
HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES**

(Appendix not included in the electronic version of this report.)

105TH CONGRESS
2D SESSION

H. R. 3374

To amend the harmonized Tariff Schedule of the United States to provide for temporary duty-free treatment for semiconductor plating lines.

IN THE HOUSE OF REPRESENTATIVES

MARCH 5, 1998

Mr. CRAPO introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Harmonized Tariff Schedule of the United States to provide for temporary duty-free treatment for semiconductor plating lines.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. TEMPORARY SUSPENSION OF DUTY ON SEMI-**
4 **CONDUCTOR PLATING LINES.**

5 (a) IN GENERAL.—Subchapter II of chapter 99 of
6 the Harmonized Tariff Schedule of the United States is
7 amended by inserting in numerical sequence the following
8 new heading:

“	9902.85.43	Plating lines for semiconductors and integrated circuits (provided for in subheading 8543.30.0000)	Free	No change	No change	On or before 12/31/01	”.
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1 (b) **EFFECTIVE DATE.**—The amendment made by
2 subsection (a) applies with respect to goods entered, or
3 withdrawn from warehouse for consumption, on or after
4 the 15th day after enactment of this Act.

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